

**INVESTMENT COMMITTEE, WASHOE COUNTY, NEVADA
MINUTES OF MEETING**

THURSDAY: June 2, 2022 11 a.m.

PRESENT: Vaughn Hartung, Chair
Alexis Hill, Commissioner (Via Zoom)
Linda Jacobs, Treasurer
Eric P. Brown, County Manager (Via Zoom)
Cathy Hill, Comptroller

STAFF: Michael Large, Legal Counsel
Brenda Mathers, Chief Deputy Treasurer
Marissa Kuckhoff, Administrative Secretary

FHN: Rick Phillips, President and Chief Investment Officer, FHN

OTHER: George Robison, Executive Director, Truckee River Flood Management (via Zoom)
Debra Crowley, Senior Financial Analyst, Truckee River Flood Management (via Zoom)

The Washoe County Investment Committee met in the Caucus Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Chair Vaughn Hartung called the meeting to order, and Administrative Secretary Marissa Kuckhoff called the roll. It was established that quorum was present, and the Committee conducted the following business.

AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”

Chair Hartung called for any public comment and there was none.

AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]

Agenda Subject: “Possible approval of minutes for the Washoe County Investment Committee’s February 2, 2022, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed.”

Chair Hartung introduced this agenda item, called for any corrections, and there was one made by Treasurer Linda Jacobs to move the ‘via Zoom’ attendance notation to Commissioner Alexis Hill from Chair Hartung. Commissioner Hill moved to approve the minutes with the correction, and Comptroller Cathy Hill seconded. The motion passed unanimously.

AGENDA ITEM 4 – UPDATE REGARDING FIRST HORIZON BANK ACQUISITION BY TD BANK GROUP [NON-ACTION ITEM]

Agenda Subject: “FHN will report on the acquisition of First Horizon by TD Bank Group.”

Rick Phillips updated the group that FHN’s parent company, First Horizon Bank, was acquired by Charter Dominion Bank, the sixth largest bank in North America, based in Canada. Shareholders approved two days prior, and it was making its way through the regulatory bodies with expected approval later this year or early next year. Phillips said this will extend the resources available. Comptroller Hill asked if notification will be given of the approval and Phillips said that there would be a notification, and a name change was possible. Chair Hartung asked Comptroller Hill if this could cause any conflicts of interest. She replied she was not aware of a conflict but wants to ensure reporting requirements are managed and pool participants are notified.

AGENDA ITEM 5 – UPDATE REGARDING WELLS FARGO CUSTODY TRANSITION TO PRINCIPAL CUSTODY SOLUTIONS [NON-ACTION ITEM]

Agenda Subject: “The Treasurer will report on the transition from Wells Fargo Custody to Principal Custody Solutions.”

Treasurer Jacobs reported that custody had transitioned to Principal Custody Solutions on February 22, 2022. The County’s main contact with Wells Fargo also moved to Principal and the transition was smooth.

AGENDA ITEM 6 – UPDATE REGARDING NEW LOCAL GOVERNMENT INVESTMENT POOL (LGIP) ACCOUNT FOR THE AMERICAN RESCUE PLAN ACT (ARPA) FUNDS [NON-ACTION ITEM]

Agenda Subject: “The Treasurer will report on the new LGIP account for ARPA funds.”

Treasurer Jacobs reported that a new LGIP account was created for ARPA funds. Comptroller Hill reported that when funds are received the goal is to invest them, but given the volatility of the market, the funds are isolated in LGIP for straight interest earning. All the earnings can be used for ARPA projects and reporting requirements can be managed. Each month the Comptroller’s department notifies the Treasurer’s office how much was spent on projects so that the County can be reimbursed from the LGIP account. The process is cleaner, the interest earnings less volatile and the funds can be easily identified. Chair Hartung asked what the LGIP interest rate was, and Comptroller Hill and Phillips reported about .8%.

AGENDA ITEM 7 – UPDATE AND DISCUSSION REGARDING COMBINING WASHOE COUNTY INVESTMENT PORTFOLIO’S GROUP A AND GROUP B [NON-ACTION ITEM]

Agenda Subject: “The Treasurer will provide an update as to the status of combining Washoe County Investment Portfolio’s Group A and Group B, and Committee Members may discuss the status

Treasurer Jacobs reported that as of July 1, Group A will transition into Group B for one overall portfolio. While Group A was previously used for liquidity, LGIP will take its place. Comptroller Hill reported that LGIP has reached the benchmark.

AGENDA ITEM 8 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY’S INVESTMENT PORTFOLIO [NON-ACTION ITEM]

Agenda Subject: “The January-March 2022 quarterly report will be provided, and Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County’s Investment Portfolio Strategy discussion and Economic Update.”

Chair Hartung introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

ECONOMIC AND MARKET UPDATE

When Will Rates Stop Rising? When Something Breaks.

What will “break” this time?

The US 10-Year Treasury and Fed Funds Yields were tracked from the late 1970’s through present and show two Fed hikes in the 1980’s to combat hyperinflation, resulting in two back-to-back Recessions. The Fed’s Neel Kashkari is confident inflation can come down, but not without some pain.

Former NY Fed President: Inflation is Enemy #1... Risk Assets (Stocks, housing, crypto) Watch Out!

Phillips summarized the concept of the “wealth effect”: when stock portfolios go up, and house prices and values go up, we feel wealthier and spend more, and that can cause inflation. The Fed’s mission is to bring that back down to their 2% target with the current rate around 8%.

Stock Indexes Starting to Show Some Stress

A graph was shown depicting the major stock indexes total returns since December 31, 2021. They were down 17-29% in the reporting range. Phillips reported several factors that impact this are the lack of federal stimulus and the Fed tightening financial conditions by raising rates.

Housing Market Update: Starting to See Slowing

A graph was shown depicting Typical Home Values in the United States from 2000 to present. Phillips highlighted an article from the Wall Street Journal that said, “this is the first time in the history of this data series, which includes the housing bubble, that the yearly increase in home value has eclipsed median yearly salary.”

30 Year Mortgage Rate is Still Low... But the Average Annual P&I Payment is 30% higher

Phillips showed that the largest year-over-year percentage change of the 30 Year Fixed Rate Mortgage Average in the US, from 1975 to present, was the in the last year.

Fed is Tightening Financial Conditions with Hikes Lowering Their Balance Sheet

Phillips showed a graph depicting the Fed Funds implied rate hikes in FOMC meeting months. As rates are increased, the rate of change starts to slow down. The Fed’s neutral and long-term Fed Funds rate is an average of around 2.5% right now.

Growth and Inflation Projected to Decline

The US Gross Domestic product (GDP) year-over-year, and the Consumer Price Index (CPI) are projected to decline through 2023. When factoring in inflation, there has been little to no growth in the market for the first half of the year. According to Yardeni Research, US households are spending the equivalent of \$5,000 on gasoline per year, up from \$2,800 a year ago and \$3,800 as recently as March.

Congestion on the Yield Curve Around 2.5% to 3%

Phillips explained that the yield curve works similarly to traffic. The bond market does not like when the Fed tightens too much, and it starts to congest the yield curve. FHN watches the yield curve closely, as it is a great predictor of future recessions and slowdowns. Chair Hartung asked about Phillips’ thoughts on an impending recession and Phillips predicted it could be early 2023 but that it depends greatly on the Fed.

PORTFOLIO METRICS AND INFORMATION

Portfolio Summary

Phillips reviewed charts in the investment report representing the Sector Allocation, Maturity Distribution, Credit Quality, Account Summary, Month-End Portfolio Book Yield, and Top Issuers.

Investment Policy Compliance

As of March 31, 2022, the portfolio was in compliance and the total Book Value was \$852,375,328.15 with a Weighted Average Maturity of 2.15.

Historical Book Values

The growth of the Book Values over time was charted from July 2016 through March 2022 and it showed that the portfolio increased substantially in that time from \$470.3 million to \$864.8 million.

Historical Book Values Per Fiscal Year

The growth of the portfolio was presented in fiscal year format and the cyclical nature of the property tax and sales tax cycles was referenced. This information is used to project and plan for upcoming cashflows.

Historical Weighted Average Maturity

The portfolio's weighted average maturity for March 2022 was 2.15, with the "sweet spot" noted by FHN as being between 2-2.5 years.

Yield at Cost Per 6-Month Maturity Levels

The Maturity's yield at cost and percentage of portfolio were reviewed, with the largest allocation in the 0-to-.5-year range at 31.83%. Cash flow planning can allow these to be extended out to capture more earnings.

Historical Sector Allocation

The sector allocation for the portfolio at quarter end was 31.3 % in Treasuries, 23.0 % in Agencies, 13.6 % in Corporates, 11.6% in Commercial Paper, 9.3% in LGIP, 6.1 % in Certificates of Deposit, 3.3% is Asset Backed Securities, 1.5% in Supras, .2% in Money Market Funds, and 0% in Mortgage-Backed Securities.

Historical Yield At Cost vs Benchmark

The Investment Management Plan indicates that the portfolio should earn a market rate of return over time.

AGENDA ITEM 9 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]

Agenda Subject: "This item is limited to announcements or issues proposed for future agendas and/or workshops."

Chair Hartung called for any committee member comments and there were none.

AGENDA ITEM 10 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Chair Hartung called for public comment and there was none.

AGENDA ITEM 11 – ADJOURNMENT [NON-ACTION ITEM]

Chair Hartung adjourned the meeting.

Attachments to Minutes



Agenda Item 3 -
Minutes of February



Agenda Item 5 -
Washoe Co Investm